

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Garcia and Vargas Analyst: Darrine Distefano Bill Number: AB 11

Related Bills: See Prior Analysis Telephone: 845-6458 Amended Date: February 11, 2003

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Agency Designate An Enterprise Zone In The City of Brawley, Within Imperial County, That Was A Designated Manufacturing Enhancement Area

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced December 2, 2002.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED December 2, 2002, STILL APPLIES.

X OTHER - See comments below.

## SUMMARY

This bill would require the California Technology, Trade, and Commerce Agency (TTCA) to designate the Manufacturing Enhancement Area (MEA) within the City of Brawley as an Enterprise Zone (EZ).

## SUMMARY OF AMENDMENTS

The February 11, 2003, amendments would require TTCA to convert the MEA within the City of Brawley to an EZ as of January 1, 2002. Once the EZ has been designated, the MEA would cease to exist for purposes of obtaining any related benefits.

The amendments also state this bill only applies to the City of Brawley.

The amendments resolved two of the department's implementation concerns from the December 2, 2002, analysis. However, the remaining implementation concerns that were not addressed and an additional concern regarding the January 1, 2002, date is provided below for convenience. The remainder of the department's analysis dated December 2, 2002, still applies.

## POSITION

Pending.

Board Position:

<u>      </u> S	<u>      </u> NA	<u>      </u> NP
<u>      </u> SA	<u>      </u> O	<u>      </u> NAR
<u>      </u> N	<u>      </u> OUA	<u>  X  </u> PENDING

Legislative Director  
Brian Putler

Date  
03/24/03

## **ANALYSIS**

### **IMPLEMENTATION CONSIDERATIONS**

It is unclear what the expiration date of the designated EZ would be. In the past, when program areas were converted to EZs, the designation date, and thus, the expiration date of the converted program area, remained unchanged. Brawley's expiration date under the MEA is December 2012.

Due to the retroactive date of January 1, 2002, EZ tax incentives would now be available for the taxpayer to claim on their 2002 tax return. However, most taxpayers will have already filed their 2002 tax return by the effective date of this bill, unaware that the EZ tax incentives were available. Further, taxpayers that had claimed the prior MEA tax incentive would be denied that incentive since it would not have been available. As a result, taxpayers would have to file amended returns to obtain the EZ tax incentives.

It is unclear whether a taxpayer would lose the right to apply existing MEA hiring credits and credit carryovers obtained in prior tax years. The author may wish to include language allowing the taxpayer with existing MEA hiring credits to apply that credit against the income from EZ business activities.

It is unclear if those employees previously qualifying the taxpayer for the MEA hiring credit would automatically qualify the taxpayer for the EZ hiring credit. If not, the taxpayer would have to obtain new vouchers for those employees.

It is unclear what impact this bill would have on fiscal year taxpayers that are claiming the EZ tax benefits. Taxpayers that operate on a fiscal year may be in the MEA for the first portion of their taxable year and in an EZ for the remaining portion of their taxable year. It is unclear what tax benefits would be available to the fiscal year taxpayer or how the taxpayer would claim the new benefits.

## **ECONOMIC IMPACT**

A revenue estimate cannot be provided because only one significant new business in Brawley is currently using MEA credits. Due to its large size and insufficiency of other viable businesses in the area, any estimate about the impact of conversion to an EZ would necessitate disclosure of that business' confidential tax information.

## **ARGUMENTS/POLICY CONSIDERATIONS**

This bill would allow taxpayers additional tax benefits for activities that had previously occurred in a taxable year that had already ended. As a result, this bill may be interpreted to provide a gift of public funds.

## **LEGISLATIVE STAFF CONTACT**

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